

SPECIAL



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REPORT

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BOSTON'S BUDGET PROBLEM IN FISCAL 1992

The City of Boston will need to reduce its departmental spending for city, hospital, county and school services by \$50-\$60 million in fiscal 1992. A cut of \$60 million represents 5.4% of this year's departmental appropriations. The City's operational revenues will drop by \$40-\$50 million and the fixed costs of pensions, debt service and state assessments will increase by approximately \$14 million. The real cut in spending is actually much greater because within the overall reduction, budget increases for such items as health insurance, workers' compensation, execution of courts, the Penal Department and special education tuitions must be absorbed. The reduction in revenues is due to the cut in state aid, reliance on one-time revenues this year and a drop in departmental receipts, in part reflecting the downturn in the economy. Boston has not been in this position of having less operational revenues than the prior year since fiscal 1982, the first full year of Proposition 2½. The revenue loss will require all departmental budgets to be cut to varying degrees with employee reductions being a primary means of reducing spending.

This report reflects the Bureau's estimates and those numbers that are known at this time. No assumption is made of the possible use of any one-time revenues in this analysis. On April 10, 1991, the Mayor will present to the City Council his fiscal 1992 budget recommendations. That budget will provide a detailed assessment of the revenue loss and the cuts recommended for each department. The Mayor's budget will be delicately balanced but that status could be jeopardized by factors such as School Department spending, final state aid estimates, collective bargaining and Penal Department expenditures.

REVENUE LOSS

Boston's non-property tax revenues could decrease by over \$70 million next year compared to this year's budget. With the estimated increase in the property tax levy, the overall revenue loss could be as much as \$50 million.

GENERAL FUND REVENUES AND EXPENDITURES FIGURES IN 000'S

| WHERE THE MONEY COMES FROM | FISCAL 1991* TAX RATE | FISCAL 1992 ESTIMATE | CHANGE FY91-FY92 | PERCENT |
|-------------------------------|--------------------------|-------------------------|---------------------|---------|
| GROSS PROPERTY TAXES | \$555,069 | \$581,900 | \$26,831 | 4.8% |
| OVERLAY | (26,432) | (29,095) | (2,663) | 10.1% |
| NET PROPERTY TAXES | \$528,637 | \$552,805 | \$24,168 | 4.6% |
| DEPARTMENTAL REVENUES | 181,898 | 163,056 | (18,842) | -10.4% |
| HEALTH & HOSPITALS | 172,000 | 172,000 | 0 | 0.0% |
| STATE REVENUES | 393,115 | 369,107 | (24,008) | -6.1% |
| ALL OTHER REVENUES | 98,283 | 68,330 | (29,953) | -30.5% |
| TOTAL REVENUE | \$1,373,933 | \$1,325,298 | (\$48,635) | -3.5% |
| WHERE THE MONEY GOES | | | | |
| DEPARTMENTAL EXPENDITURES | | | | |
| CITY DEPARTMENTS | \$500,555 | \$469,553 | (\$31,002) | -6.2% |
| HEALTH AND HOSPITALS | 193,578 | 181,699 | (11,879) | -6.1% |
| SCHOOL DEPARTMENT | 389,000 | 374,000 | (15,000) | -3.9% |
| SUFFOLK COUNTY | 34,018 | 34,018 | 0 | 0.0% |
| TOTAL DEPARTMENTAL EXPEND. | \$1,117,151 | \$1,059,270 | (\$57,881) | -5.2% |
| FIXED COSTS | | | | |
| DEBT REQUIREMENTS | \$86,379 | \$88,880 | \$2,501 | 2.9% |
| RETIREMENT CONTRIBUTIONS | 113,076 | 124,083 | 11,007 | 9.7% |
| STATE ASSESSMENTS | 51,771 | 53,065 | 1,294 | 2.5% |
| TOTAL FIXED COSTS | \$251,226 | \$266,028 | \$14,802 | 5.9% |
| TOTAL OPERATIONS EXPENDITURES | \$1,368,377 | \$1,325,298 | (\$43,079) | -3.1% |
| SURPLUS/(DEFICIT) | \$5,556 | (\$0) | | |

* Includes \$9.6 million in free cash expected to be appropriated by the end of the fiscal year.

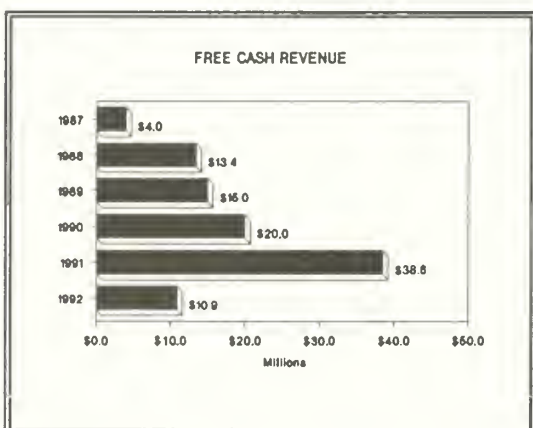
STATE AID The state Cherry Sheet revenues for Boston are estimated to be cut by \$24.0 million based on the Weld Administration's budget recommendations for fiscal 1992. The Governor recommended that "Resolution Aid" be cut by \$270.6 million, which would reduce Boston's receipts by \$36.7 million. To help mitigate this revenue loss, the Governor recommended an increase of \$75 million in lottery funds for cities and towns and an increase of \$78.8 million in highway funds. Boston's share of both would be \$6.9 million and \$1.5 million respectively. No highway funds were provided this year so the Governor recommend two year's worth of highway money for next year. Boston receives a small percentage of this fund because its distribution formula favors rural and suburban communities. Teacher pension reimbursements for Boston are expected to increase by \$2.8 million. This estimate of total state aid loss is based on the Governor's budget. Any changes in the amount and allocation of the cut by the Legislature would affect this estimate.

DEPARTMENTAL REVENUES Departmental receipts are estimated to decline by \$18.8 million next year. Parking fines show the largest estimated loss of \$8.4 million. As a result of increasing the parking fines and plans to aggressively ticket the Back Bay and other neighborhood areas, the City estimated that it would collect \$61.9 million this year. That estimate was too optimistic and the City will collect closer to \$53.5 million, which is the amount projected here for next year. The street, sidewalk & curb repair decrease of \$5.8 million is due to the use of accumulated one-time revenues this year. Reflecting the decline in interest rates, interest on investments is projected to decrease by \$2.3 million. The decrease of prior year reimbursements is attributable to the winding down of the alternative school construction program.

SELECTED DEPARTMENTAL REVENUES
FIGURES IN 000'S

| | FISCAL 1991 BUDGET | FISCAL 1992 ESTIMATES | CHANGE | PERCENT |
|-----------------------------------|-----------------------|--------------------------|----------|---------|
| PARKING FINES | 61,900 | 53,500 | (8,400) | -13.6% |
| CH. 121A S10 | 30,252 | 32,300 | 2,048 | 6.8% |
| MOTOR VEHICLE TAX | 20,315 | 19,500 | (815) | -4.0% |
| INVESTMENT INTEREST | 17,800 | 15,500 | (2,300) | -12.9% |
| HOTEL/MOTEL TAX | 14,000 | 15,000 | 1,000 | 7.1% |
| JET FUEL TAX | 13,400 | 13,400 | 0 | 0.0% |
| FREE CASH | 38,568 | 10,907 | (27,661) | -71.7% |
| BUILDING PERMITS | 8,400 | 8,000 | (400) | -4.8% |
| STREET, SIDEWALK & CURB REPAIR | 8,300 | 2,500 | (5,800) | -69.9% |
| REIMBURSEMENTS | 3,400 | 1,800 | (1,600) | -47.1% |

FREE CASH The largest revenue decrease for Boston next year, outside of state aid, is projected for the budgetary fund balance. This revenue, more commonly referred to as "free cash", is certified by the Massachusetts Department of Revenue and consists primarily of prior year property taxes collected and operating surpluses. This year the City will appropriate about \$38.6 million of free cash. That is \$18.6 million more than used in any recent prior year and \$27.7 million more than will be available when the Mayor presents his budget next week. This figure assumes that the remaining \$9.6 million in available free cash will be appropriated this year. The \$4.0 million supplementary budget for the School Department now before the City Council will be funded from free cash. The Flynn Administration used this extraordinary amount of free cash this year to offset the local aid cut rather than reduce expenditures further and to provide additional funds to the School Department. The use of \$38.6 million in free cash helped solve this year's budget problems, but because much of that total was in excess of the normal amount available, it is contributing to the City's revenue problems next year.



OTHER Other revenues next year are expected to remain about the same as this year. Hospital receipts, budgeted at \$172.0 million this year, will actually generate about \$178-\$180 million due to receipt of reimbursements from prior years. However, in fiscal 1992, hospital revenues are anticipated to come back to the \$172.0 million level or slightly less.

PROPERTY TAX INCREASE

The property tax levy is the one major local revenue that will increase next year. However, the increase will be less than

in past years, due principally to the fact that new growth will be less. Boston's tax levy may increase by \$26.8 million or 4.8% next year. That compares with an increase of \$33.5 million or 6.4% this year. The difference is new growth, which increased by \$20.5 million this year but is estimated to increase by only about \$13.0 million next year. Some new growth anticipated for next year was actually captured this year as the slowdown in development enabled construction on existing projects to be accelerated. Next year, a revaluation year, the assessed values will decrease substantially and the tax rates will increase to provide the 2½% increase in the levy, which is \$13.8 million. The tax rate increase could push the market value of buildings down in subsequent years and force Boston to reconsider its policy of full classification with the maximum tax burden placed on business property. Boston will continue to keep its property tax levy at the maximum levy limit, which can not be increased further except through an override approved by the voters.

| PROPERTY TAX LEVY LIMIT | | |
|--------------------------|----------------|--------------------------|
| FIGURES IN 000'S | | |
| | FISCAL 1991 | ESTIMATED FISCAL 1992 |
| PRIOR YEAR LEVY LIMIT | \$521.6 | \$555.1 |
| 2 1/2% LEVY GROWTH | 13.0 | 13.8 |
| NEW GROWTH | 20.5 | 13.0 |
| TOTAL | \$555.1 | \$581.9 |
| INCREASE OVER PRIOR YEAR | \$33.5 | \$26.8 |
| PERCENT | 6.4% | 4.8% |

FIXED COSTS

Boston's fixed costs of pension payments, debt service and state assessments will increase, in aggregate, by about \$14.8 million next year. This follows several years when these costs have remained fairly stable. The pension cost for Boston is calculated by the Commonwealth's Division of Public Employment Retirement Administration (PERA). The City believes that this figure should be lower and is presently discussing this issue with PERA. The debt service estimate assumes that the City will issue \$80 million in general obligation bonds in July and that one interest payment will be made next year. It also assumes that the City will issue tax anticipation notes for the first time since fiscal 1987. State assessments, which consists primarily of the MBTA assessment, is increased by 2.5%, the maximum allowed under Proposition 2½.

DEPARTMENTAL BUDGETS

A decrease of \$40-\$50 million in operating revenues and an increase in fixed costs of over \$14 million will require departmental spending, in aggregate, to be cut by \$50-\$60 million or over 5.0%. The Mayor has informed the School Department that its appropriation will be \$374.0 million, which represents a decrease of \$15.0 million or 3.9%. The Suffolk County budget is assumed to be level-funded with the Penal Department increase offsetting the cuts in the other departments. The balance of the cuts would have to be absorbed by the Hospital and city departments, which would require a cut of over 6%.

This year 77.3% of all departmental appropriations is allocated to five major departments: School, Health and Hospitals, Police, Fire and Public Works. Budget cuts of \$50-\$60 million next year mean that despite the priority of the services provided by these five departments, their budgets will have to be reduced. It also means that a much higher share of the cuts will have to be born by the remaining departments. With salaries representing 65.1% of all departmental appropriations, the City will be required to reduce its work force in practically every department, affecting the delivery of a wide range of services. A detailed accounting of the departmental cuts and reduction of positions will be presented next week in the Mayor's budget.

FISCAL WARNINGS

The Mayor will present a very fragile financial plan to the City Council on April 10th. That budget will be balanced contingent upon large cuts in departmental spending being implemented on time, state aid for Boston not being reduced lower than Governor Weld proposed and departmental receipts being conservatively estimated. However, the balancing of this financial plan could be jeopardized depending on the outcome of the following four key areas.

1. *School Committee Spending* The biggest threat to maintaining balanced operations in fiscal 1992 is school spending. The Mayor has indicated that the City can support a school appropriation of \$374.0 million. The School Committee has submitted a fiscal 1992 budget requesting an appropriation of

\$398.0 million, a difference of \$24.0 million. Based on the School Committee's past budget history and the public statements of several members regarding next year's budget, it now seems unlikely that the Committee will reduce its budget by \$24.0 million. Instead, the School Committee will probably approve spending at a higher level in hopes that City Hall will provide more funds at a later time. The Bureau is very concerned about the consequences of a \$374.0 million school appropriation on the educational program offered the students in Boston. However, that does not lessen the danger to the City's fiscal stability if the School Committee intentionally spends in excess of its authorized appropriation.

2. State Aid The local aid estimates are based on a March 6th bulletin from the Massachusetts Department of Revenue which was issued only as a guide in lieu of early Cherry Sheet estimates. The figures in the bulletin are based on the key aspects of the Governor's budget proposals. However, no estimates were provided for accounts which equal 22.5% of this year's Cherry Sheet aid. Recommendations concerning the amount and distribution of local aid cuts and increases could be modified by the Legislature. Any changes that would further reduce Boston's local aid estimate or increase its state assessments would negatively affect the budget plan.

3. Penal Department The increasing inmate population and the opening of the new prison facility in South Bay could exert pressure on the Penal Department to spend beyond its fiscal 1992 appropriation. The Penal Department may receive a small increase in its appropriation for fiscal 1992, but it will be moving into its new facility in October. That raises questions as to whether next year's budget will allow for full utilization of the new prison.

4. Collective Bargaining No funds are included in the fiscal 1992 budget for collective bargaining increases and most city employees have been working without a contract since last June. The City is not in a fiscal position to negotiate increases in salaries or benefits this year. The collective bargaining contract of 13 city employee unions representing 23 bargaining units have been expired since June 30, 1990. These unions represent most city employees including police officers and firefighters. Negotiations have been ongoing with the unions, but recently the Flynn Administration pulled salary increases off the table. The contracts of three other unions, including SENA, which represents management employees, will expire on June 30, 1991. A salary increase of 2.5% this year would cost the City approximately \$11.3 million. The contracts for most school unions, including the Boston Teachers Union, expire on August 31, 1992.

Other expenses such as health insurance, workers compensation and police overtime are also of concern next year.

CONCLUSION

The estimate of departmental cuts of \$50-\$60 million is fluid and will continually change. The City may be able to identify one-time revenue sources that can be used. On the other hand, the Legislature may approve a fiscal 1992 budget that requires a larger local aid cut. Based on the extent of cuts in basic city and school services, the Mayor and City Council may consider an override of Proposition 2½. Other options that are being discussed by the Legislature include exempting the overlay reserve from the levy limit or allowing the levy limit to change based on a measurable index. The Flynn Administration may also propose the enactment of optional special excise taxes for cities and towns such as a parking excise tax. Whether there is a need to adopt one or more of these options will be better understood once the Mayor presents his fiscal 1992 budget next week.